



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Commonwealth Mutual Insurance Company

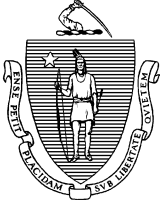
Quincy, Massachusetts

For the Period January 1, 2005 through June 30, 2006

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NAIC COMPANY CODE: 10231

EMPLOYER'S ID NUMBER: 04-1049430



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

One South Station • Boston, MA 02110-2208
(617) 521-7794 • FAX (617) 521-7770
Springfield Office (413) 785-5526
TTY/TDD (617) 521-7490
<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

DANIEL O'CONNELL
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

DANIEL C. CRANE
DIRECTOR

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

August 22, 2007

Honorable Nonnie S. Burnes
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Burnes:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, a comprehensive examination has been made of the market conduct affairs of

COMMONWEALTH MUTUAL INSURANCE COMPANY

at its home office located at:

1100 Crown Colony Drive
Quincy, Massachusetts 02269

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of Commonwealth Mutual Insurance Company (“the Company”) for the period January 1, 2005 to June 30, 2006. The examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *NAIC Market Conduct Examiner’s Handbook*, (“the Handbook”) the market conduct examination standards of the Division, the Commonwealth of Massachusetts insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management and control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed in under this examination were:

- I. Company Operations/Management
- II. Complaint Handling
- III. Marketing and Sales
- IV. Producer Licensing
- V. Policyholder Service
- VI. Underwriting and Rating
- VII. Claims

In addition to the processes’ and procedures’ guidance in the Handbook, the examination included an assessment of the Company’s internal control environment. While the Handbook approach detects individual incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to run their business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The controls assessment process is comprised of three significant steps: (a) identifying controls; (b) determining if the control has been reasonably designed to accomplish its intended purpose in mitigating risk (i.e., a qualitative assessment of the controls); and (c) verifying that the control is functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted. The form of this report is “Report by Test,” as described in Chapter VI A. of the Handbook.

EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations and, if applicable, subsequent Company actions. Managerial or supervisory personnel from each functional area of the Company should review report results relating to their specific area.

The Division considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a “finding,” or violation of Massachusetts insurance laws, regulations or bulletins was found to have occurred. It also is recommended that Company management evaluate any substantive issues or “findings” for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions and a report of any such corrective action(s) taken should be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and, if applicable, subsequent Company actions made, as part of the comprehensive market conduct examination of the Company. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at www.mass.gov/doi.

The comprehensive market conduct examination resulted in no findings or negative observations with regard to company operations/management, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections.

II. COMPLAINT HANDLING

STANDARD II-2

Findings: None.

Observations: The Company appears to have adequate complaint procedures and communicates such procedures to policyholders. However, RNA noted the Company has not established formal Key Performance Indicators (“KPIs”) for monitoring complaint handling activity.

Recommendations: The Company shall develop and implement KPIs for complaint handling. Further, internal audit shall periodically monitor the Company’s compliance with its complaint handling policies and regulatory requirements.

Subsequent Action: The Company has subsequently developed KPIs for complaint handling.

COMPANY BACKGROUND

The Company is an affiliate of Arbella Mutual Insurance Company (“Arbella Mutual”) headquartered in Quincy, Massachusetts, which is the controlling entity in a corporate ownership structure that includes five Massachusetts domestic insurers (the “Arbella Group”). Arbella Mutual controls the Company through management and reinsurance agreements. An affiliate reinsurer, Commonwealth Reinsurance Company, was formed by Arbella Mutual to 100% reinsure all business written by the Company, which is limited to homeowner’s renewal policies in Massachusetts. Arbella Mutual’s future plans are to rewrite the Company’s policies as Arbella Mutual policies once new computer systems are implemented in 2008; thus, the Company’s premium is expected to decline over time. The market conduct examination of the Company was conducted concurrently with the examination of certain affiliates within the Arbella Group as management, systems, processes and controls are common to operations of these affiliated companies. Private passenger automobile, commercial automobile, commercial property/liability and workers compensation insurance is sold through affiliated insurance companies within the Arbella Group.

The Arbella Group is rated B++ (Very Good) by A.M. Best. The Company had \$898.1 million in admitted assets and \$345.1 million in surplus as of December 31, 2005. For the year ended December 31, 2005, the Company’s premiums were \$453.6 million, and net income was \$25.1 million.

The key objectives of this examination were determined by the Division with emphasis on the following areas.

I. COMPANY OPERATIONS/MANAGEMENT

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard I-1. The company has an up-to-date, valid internal, or external, audit program.

Objective: This Standard addresses whether there is an audit program function that provides meaningful information to management.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's financial statements are audited annually by an independent accounting firm.
- The Company's internal audit department reports to the Board of Directors' Audit Committee.
- The Company's internal audit plan is based upon priorities established by the Audit Committee with input from senior management. The Audit Committee approves the plan prior to calendar year end, and monitors plan progress and results periodically throughout the year.
- The Company's internal audit function conducts periodic audits of the Company's compliance with its policies and procedures, and recommends enhancements to such policies and procedures.
- The Company conducts studies to evaluate the Company's claims settlement practices, such as evaluating the timeliness of subrogation recoveries..

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed various internal audit reports, field audit reports, and claims quality assurance audits to evaluate procedures performed and results obtained.

Transaction Testing Results:

Findings: None.

Observations: The internal audit reports, field audit reports and claims quality assurance audits reviewed by RNA provided detailed information on the audit procedures performed, audit findings and recommendations for improvement.

Recommendations: None.

Standard I-2. The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

No work performed. All required activity for this Standard is included in the scope of the ongoing statutory financial examination of the Company.

Standard I-3. The company has anti-fraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

18 U.S.C. § 1033; Division of Insurance Bulletins 1998-11 and 2001-14.

Objective: This Standard addresses whether the Company has an anti-fraud plan that is adequate, up-to-date, in compliance with applicable statutes and appropriately implemented.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 (“Act”), it is a criminal offense for anyone “engaged in the business of insurance” to willfully permit a “prohibited person” to conduct insurance activity without written consent of the primary insurance regulator. A “prohibited person” is an individual who has been convicted of any felony involving dishonesty or breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts must notify the Division in writing of all employees and producers affected by this law. Individuals “prohibited” under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a written plan to address fraud throughout the organization.
- The Company has a Special Investigative Unit (“SIU”) within the Claim Department, which is dedicated to the prevention and handling of fraudulent activities.
- The Company’s SIU has written policies, guidelines and procedures to address claim fraud prevention.
- The SIU tracks and investigates potentially fraudulent activity with the assistance of other departments, and reports such activity to the regulators as necessary.
- The Company’s policy is to seek the Division’s approval regarding the hiring of any “prohibited person” when it wishes to employ such a person.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed the Company’s anti-fraud policies and procedures, and the work of the SIU, as part of various claim standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's policies and procedures, it appears that the Company generally has adequate anti-fraud initiatives in place that are intended to detect, prosecute, and prevent fraudulent insurance acts.

Recommendation: None.

Standard I-4. The company has a valid disaster recovery plan.

No work performed. All required activity for this Standard is included in the scope of the ongoing statutory financial examination of the Company.

Standard I-5. The company adequately monitors the activities of the Managing General Agents (MGA).

No work performed. The Company does not utilize MGAs; therefore this standard is not applicable to this examination.

Standard I-6. Company contracts with MGAs comply with applicable statutes, rules and regulations.

No work performed. The Company does not utilize MGAs; therefore this standard is not applicable to this examination.

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.

Objective: This Standard addresses the organization, legibility and structure of files, as well as the determination of the Company's compliance with record retention requirements.

Controls Assessment: The Company has established record retention policies and procedures for each key function and department, that note the length of time each document must be retained, and how documents should be destroyed.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed the Company's record retention policies and evaluated such for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's home office record retention policies appear reasonable.

Recommendations: None.

Standard I-8. The company is licensed for the lines of business that are being written.

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard addresses whether the lines being written by a Company are in accordance with the authorized lines of business.

Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Company's Certificate of Authority, and compared it to the lines of business that the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company is licensed for the lines of business being written.

Recommendations: None.

Standard I-9. The company cooperates on a timely basis with examiners performing the examinations.

M.G.L. c. 175, § 4.

Objective: This Standard addresses the Company's cooperation during the course of the examination.

M.G.L. c. 175, § 4 sets forth the Commissioner's authority to conduct examinations of an insurer.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination.

Transaction Testing Results:

Findings: None.

Observations: The Company's level of cooperation and responsiveness to examiner requests was exemplary.

Recommendations: None.

Standard I-10. The company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 Code of Federal Regulations ("CFR") Part 313.

Objective: This Standard addresses the Company's policies and procedures to ensure it minimizes improper intrusion into consumers' privacy.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: The following key observations were noted in conjunction with the review of Standards I-10 through I-17:

- The Company's practice is to provide the Privacy Policy when the policy is delivered.
- The Privacy Policy states that it collects certain types of nonpublic personal information from third parties or other sources, and gives examples of such third parties or other sources. The Privacy Policy further notes that the Company may disclose information as permitted by law, and that consumers have a right to access and to correct errors in this information.
- The Company's Privacy Policy states that it does not disclose any nonpublic personal information to any affiliate, or non-affiliated third party, other than those permitted by law and only for the purpose of transacting the business of the applicant's insurance coverage or claim.
- The Company annually provides the Privacy Policy to customers via mail upon renewal.
- The Company provides its Privacy Policy on its website.
- The application for personal lines insurance notes that the Company's normal underwriting and renewal procedures may include obtaining an investigative consumer report with applicable information on an applicant's character, general reputation, personal characteristics and mode of living. The application further discloses that the Company may obtain this information through personal interviews with the applicant's friends, neighbors and associates, and that it will provide additional detail concerning the nature and scope of this investigation to applicants within a reasonable time upon written request.

- The Company annually conducts an information systems risk assessment to consider, document and review information security threats and controls. The risk assessment evaluations have resulted in continual improvements to information systems security.
- Company policy requires that its information technology security practices safeguard nonpublic personal and health information, and communicates these practices in training programs, compliance presentations and various memoranda as needed. Company policy requires all staff to take annual privacy training, and to sign an acknowledgement of having taken such training.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal and health information is located. Access is frequently and strictly monitored.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's privacy practices minimize any improper intrusion into applicants' and policyholders' privacy, and are disclosed to policyholders in accordance with the Company's policies and procedures.

Recommendations: None.

Standard I-11. The company has developed and implemented written policies, standards and procedures for the management of insurance information.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

The objective of this Standard relates to privacy matters and is included in Standards I-10 and I-12 through I-17.

Standard I-12. The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard addresses the Company's policies and procedures to ensure it protects privacy of non-public personal information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers, and restrictions on a financial institution's ability to

disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures adequately protect consumers' non-public personal information.

Recommendations: None.

Standard I-13. The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation supporting its privacy policies and procedures and examined whether the privacy notice provided sufficient information and disclosures.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's privacy notice and its privacy practices, it appears that the Company provides a sufficient privacy notice to applicants and to policyholders regarding its collection and disclosure of non-public personal financial information, in accordance with Company policy.

Recommendations: None.

Standard I-14. If the company discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

No work performed. The Company does not utilize opt out rights as it does not share information with others for marketing purposes; therefore, this standard is not applicable to this examination.

Standard I-15. The company's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard addresses the Company's policies and procedures regarding collection, use and disclosure of nonpublic personal financial information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing consumers' nonpublic personal information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

Standard I-16. In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the Department of Insurance, the company has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

Objective: This Standard addresses the Company's policies and procedures to ensure it maintains privacy of nonpublic personal health information related to claims.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance and reviewed documentation supporting its privacy policies and procedures related to liability claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's policies, procedures and its liability claims, it appears that such policies and procedures provide reasonable assurance that the Company maintains the privacy of nonpublic personal health information related to claims.

Recommendations: None.

Standard I-17. Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard addresses the Company's information security efforts to ensure that nonpublic consumer information is protected.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose consumers' nonpublic personal information to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual notice of its privacy policies and

practices. In addition, a financial institution is prohibited from disclosing consumers' nonpublic personal information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's information security policies and procedures, it appears that the Company has implemented an information security program which provides reasonable assurance that its information systems protect nonpublic customer information.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

II. COMPLAINT HANDLING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard II-1. All complaints are recorded in the required format on the company complaint register.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute.

Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints it received from the date of its last examination. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time to process each complaint.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written Company policies and procedures govern the complaint handling process.
- The Company logs all written complaints in the complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence, the nature of the complaint using NAIC reason codes and the complaint disposition using NAIC reason codes.
- The Company policy is to respond to Division complaints within 14 calendar days of receipt when possible, and in a timely manner once it receives and evaluates all required information.
- The Company states that it provides its toll free telephone number and address in its written responses to consumer inquiries, and on its web site.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. There were no complaints filed against the Company during the examination period.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's format for recording the complaint includes all necessary information. Based upon review, it appears that the Company has a process for recording complaints in the required format, in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard II-2. The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company has adequate complaint handling procedures and communicates those procedures to policyholders.

M.G.L. c. 176D, § 3(10) requires that (a) the Company has documented procedures for complaint handling (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analyses in areas developing complaints; (c) there is a method for distribution of and obtaining and recording responses to complaints that is sufficient to allow response within the time frame required by state law, and (d) the Company provides a telephone number and address for consumer inquiries.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. There were no complaints filed against the Company during the examination period. RNA also reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures and communicates such procedures to policyholders. However, RNA noted the Company has not established formal Key Performance Indicators ("KPIs") for monitoring complaint handling activity.

Recommendations: The Company shall develop and implement KPIs for complaint handling. Further, internal audit shall periodically monitor the Company's compliance with its complaint handling policies and regulatory requirements.

Subsequent Action: The Company has subsequently developed KPIs for complaint handling.

Standard II-3. The company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.

Objective: This Standard addresses whether the Company response to the complaint fully addresses the issues raised, is properly documented, includes appropriate remedies and complies with statutes, regulations and contract language.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. There were no complaints filed against the Company during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, it appears that the Company has a process for finalizing and disposing of complaints in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard II-4. The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.

Objective: This Standard addresses the time required for the Company to process each complaint.

Massachusetts does not have a specific time standard in the statutes or regulations. However, the Division has established a practice of requiring that insurers respond to complaints from the Division within 14 calendar days from the date they receive a notice of complaint.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. There were no complaints filed against the Company during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, it appears that the Company has an adequate process for timely responding to complaints in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

III. MARKETING AND SALES

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

M.G.L. c. 176D, § 3; Division of Insurance Bulletin 2001-02.

No work performed. This Standard is not covered in the scope of examination because the Company has not written any new business since 2003.

Standard III-2. Company internal producer training materials are in compliance with applicable statutes, rules and regulations.

Objective: This Standard addresses whether all Company's producer training materials are in compliance with state statutes, rules and regulations.

Controls Assessment: The following controls were noted as part of this Standard and Standard III-3:

- The Company has distributed producer training materials focusing on Company policies, practices and procedures related to policyholder service and claims.
- The Company's producers have access to electronic policy and procedures manuals through the Company's agent web portal.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have a process for ensuring that producer training materials are accurate and reasonable.

Recommendations: None.

Standard III-3. Company communications to producers are in compliance with applicable statutes, rules and regulations.

Objective: This Standard addresses whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer communications.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have a process for ensuring that its communications to producers are accurate and reasonable.

Recommendations: None.

Standard III-4. Company mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

M.G.L. c. 175, § 193R

No work performed. This Standard is not covered in the scope of examination because the Company does not offer affinity group discounts for homeowners' policies.

IV. PRODUCER LICENSING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard IV-1. Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 1998-11 and 2001-14.

Objective: The Standard addresses licensing and appointment of the Company's producers.

M.G.L. c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance in the Commonwealth be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

Pursuant to 18 U.S.C. § 1033 of the Act, it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all producers and employees acting as agents who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's appointment procedures are designed to comply with the statutory requirement that a producer be appointed as agent within 15 days from the date the agent's contract is executed, or from when the first policy application is received.
- The Company's policy is to seek approval of the Division regarding the appointment of any "prohibited person" as noted above when it wishes to appoint such a person.
- The Company maintains an automated producer database that tracks all terminations, appointments and other licensing changes related to its appointed agents.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts prior to contracting with them as agents.
- All appointed agents are required to enter into a written contract with the Company prior to selling business. Standard contract terms and conditions address proper licensure, maintenance of records, binding authority, claim reporting, commission rates, premium accounting, advertising, and termination/suspension provisions. The standard contract also gives the agent exclusive control over expirations and records.

- The Company requires its appointed agents to maintain E&O coverage.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA reviewed evidence of agent appointments in conjunction with testing of 10 homeowners' policies renewed during the examination period. RNA verified that the sales agent for each policy was included on the Division's list of the Company's appointed agents at the time of sale.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, the producers who sold policies during the examination period were included on the Division's list of the Company's appointed agents at the time the policies were issued.

Recommendations: None.

Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.

18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 1998-11 and 2001-14.

See Standard IV-1.

Standard IV-3. Termination of producers complies with applicable statutes regarding notification to the producer and notification to the state, if applicable.

M.G.L. c. 175, § 162T.

Objective: This Standard addresses the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause as defined in M.G.L. c. 175, § 162R, must notify the Division of such cause.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy and practice is to notify the Division of agent terminations as required by statute.
- The Company's policy and practice is to notify the Division of the reason for agent terminations when the termination is "for cause."

- The Company has a process for notifying agents of their termination in compliance with statutory and contractual requirements.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and termination processing.

Transaction Testing Results:

Findings: None.

Observations: The review indicated that the Company appears to have a process for notifying the Division when it terminates agent appointments.

Recommendation: None.

Standard IV-4. The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

Objective: The Standard addresses the Company's policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

Controls Assessment: Refer to Standards IV-1 and IV-3.

Controls Reliance: Refer to Standards IV-1 and IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of appointments and terminations. In conjunction with testing of 10 homeowners' policies renewed during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: The testing of homeowners' policies noted no evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Recommendations: None.

Standard IV-5. Records of terminated producers adequately document reasons for terminations.

M.G.L. c. 175, §§ 162R and 162T.

Objective: The Standard addresses the Company's documentation of producer terminations.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause.

Controls Assessment: Refer to Standard IV-3.

Controls Reliance: Refer to Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and termination processing.

Transaction Testing Results:

Findings: None.

Observations: The review indicated that the Company appears to have a process for ensuring that its records document the cause of terminations.

Recommendations: None.

Standard IV-6. Producer accounts current (account balances) are in accordance with the producer's contract with the company.

No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premiums, thus, excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the statutory financial examination of the Company.

V. POLICYHOLDER SERVICE

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard V-1. Premium notices and billing notices are sent out with an adequate amount of advance notice.

Objective: This Standard addresses efforts to provide policyholders with sufficient advance notice of premiums due and notice of cancellation due to non-payment.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company direct bills most policyholders, who generally receive a renewal and billing notice from the Company 30 - 45 days prior to the effective date of the renewal. The Company includes a policy declaration page indicating the coverage type and policy limits, and the applicable premium due, with the renewal billing notice.
- The Company automatically generates installment billing notices through its policy administration systems approximately 20 days before payments are due.
- Company policy generally requires a 20% premium down payment at the time of renewal. The remaining premium and applicable service charges are direct billed to policyholders in up to 10 installments.
- All installment billing notices contain disclosures regarding grace periods and policy cancellation for non-payment of premium.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service, and reviewed billing notice dates for 10 homeowners' policies for the examination period, and reviewed installment and interest charges on a limited basis.

Transaction Testing Results:

Findings: None.

Observations: The premium and billing transactions tested were processed according to the Company's policies and procedures. Based upon the results of testing, the Company's processes for mailing billing notices with adequate advance notice, and properly applying monthly service charges on installment payments appear to be functioning in accordance with its policies, procedures, and statutory requirements.

Recommendation: None.

Standard V-2. Policy issuance and insured requested cancellations are timely.

M.G.L. c. 175, §187B.

Objective: This Standard addresses the Company's procedures to ensure customer cancellation requests are processed timely. Objectives pertaining to policy issuance are included in Underwriting and Rating Standard VI-16. Return of premium testing is included in Underwriting and Rating Standard VI-25.

Pursuant to M.G.L. c. 175, § 187B, insurers are required to return unearned premium in a reasonable time upon receipt of the policyholder's request to cancel.

Controls Assessment: The following key observations were noted in conjunction with the review of cancellation and withdrawals under this Standard:

- Company policy is to cancel policies upon notification from the producer of the policyholder's request, and to process premium refunds in a timely manner.
- The Company refunds unearned premium to the policyholder on a pro-rata or short rate basis pursuant to statutory and regulatory guidelines.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service, and tested three insured-requested homeowners' policy cancellations for the examination. RNA reviewed evidence that each cancellation request was processed timely.

Transaction Testing Results:

Findings: None.

Observations: The insured-requested cancellations tested were processed timely according to the Company's policies and procedures. Based upon the results of testing, the Company's processing of insured-requested cancellations appears to be functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard V-3. All correspondence directed to the company is answered in a timely and responsive manner by the appropriate department.

Objective: This Standard addresses the Company's procedures to provide timely and responsive information to customers by the appropriate department. Complaints are covered in the Complaint Handling section. Claims are covered in the Claims section.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has approximately 25 customer service representatives who answer policyholders' general questions about their policies or billing matters.
- The Company considers its producers as having the primary relationship with the policyholder, and since customer service representatives are not licensed producers, policyholders must request endorsements and policy changes through the producer. Policyholders who request such changes through customer service can be transferred to the producer for servicing.
- The Company monitors customer service call waiting times, call abandon rates and individual customer service representatives' per call time use, to ensure that adequate resources are available to address customer inquiries.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed correspondence procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating, policyholder service and claim standards. RNA also obtained and reviewed documentation showing customer service representatives' per call time use and the overall call abandon rate.

Transaction Testing Results:

Findings: None.

Observations: Based upon a review of general correspondence between policyholders and the Company regarding underwriting, rating, policyholder service and claims, and review of the above information, it appears that the Company handles customer inquiries and correspondence directed to it in a timely and responsive manner.

Recommendations: None.

Standard V-4. Claims history and loss information is provided to insured in timely manner.

Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's producers and the Company's claims personnel have access to claims history and paid loss information from a private Comprehensive Loss Underwriting Exchange database.
- The Company's policy is to provide, or ask the producer to provide a policyholder with their claim history and paid loss information upon request.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed with Company personnel policy and procedures related to the Company's response to policyholder inquiries regarding claims history and paid loss information.

Transaction Testing Results:

Findings: None.

Observations: The testing of underwriting and rating, claims, complaints and policyholder service noted no evidence of the Company failing to respond to policyholder inquiries on claim history and paid loss information.

Recommendations: None.

Standard V-5. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to affected policyholders.

No work performed. The Company does not enter into assumption reinsurance agreements.

VI. UNDERWRITING AND RATING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VI-1. The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company's rating plan.

General: M.G.L. c. 175, § 193R.

Property/Liability: M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175 § 111H; 211 CMR 131.00.

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates.

M.G.L. c. 175, § 193R permits affinity group discounts based upon experience for all policies.

Pursuant to M.G.L. c. 174A, § 5, fire rates shall be based on past and prospective loss experience, during a period of not less than the most recent five-year period for which such experience is available. In considering catastrophe hazards with respect to homeowners' insurance rates, the Commissioner shall consider catastrophe reinsurance and factors relating thereto. Fire rates shall also consider a reasonable margin for underwriting profit and contingencies. Finally, such rates shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 6 requires the filing of fire rates with the Commissioner, and M.G.L. c. 174A, § 9 requires insurers to use such filed rates, unless the insurer obtains approval from the Commissioner for a rate deviation.

M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage be subject to rules and regulations set forth by the Commissioner, and 211 CMR 131.00 prescribes requirements for filing lead liability coverage rates with the Division.

Controls Assessment: The following key observations were noted in conjunction with the review of Standards VI-1 and VI-4:

- The Company has written underwriting and rating policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with statutory and regulatory requirements.
- Company policy requires that homeowners' rates be based on ISO rates. The Company files such rates with the Division to comply with statutory and regulatory requirements. Homeowners' rating criteria include territory, coverage amount and type, protection class, structure type, construction age and deductible choice.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information. RNA selected four

homeowners' policies renewed during the examination period to test rate classifications and premiums charged. RNA verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements, and with homeowners' rates filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company calculates policy premium, discounts and surcharges in compliance with statutory requirements, as well as rates filed with the Division.

Recommendations: None.

Standard VI-2. Disclosures to insureds concerning rates and coverage are accurate and timely.

Property/Liability: M.G.L. c. 175, §§ 99 and 99A; M.G.L. c. 174A, § 11.

Objective: This Standard addresses whether all mandated disclosures for rates and coverages are documented in accordance with statutes and regulations, and timely provided to insureds.

Pursuant to M.G.L. c. 175, § 99 and 99A numerous disclosures and requirements must be included on a standard fire policy. Pursuant to M.G.L. c. 174A, § 11, rating organizations and insurers shall furnish rate information to any insured within a reasonable time after receiving a written request.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures for processing renewal business.
- The Company's supervisory procedures are designed to ensure that renewal business submissions from producers are accurate and complete, including the use of all Company required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected 10 homeowners' policies renewed during the examination period to test for timely disclosure of rates and coverage.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to provide required coverage disclosures to insureds upon renewal in accordance with statutory guidelines.

Recommendations: None.

Standard VI-3. The company does not permit illegal rebating, commission cutting or inducements.

M.G.L. c. 175, §§ 182, 183 and 184; M.G.L. c. 176D, § 3(8).

Objective: This Standard addresses illegal rebating, commission cutting and inducements, and requires that producer commissions adhere to the commission schedule.

Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to knowingly permit or make any offer to pay, allow or give as inducement any premium rebate, any other benefits or any valuable consideration or inducement not specified in the contract.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has procedures for paying producers' commissions in accordance with its home office approved written contracts.
- The Company's producer contracts, and its home office policies and procedures, are designed to comply with provisions contained in statutory underwriting and rating requirements that prohibit special inducements and rebates.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. RNA also inspected producer contracts, producer training materials and manuals for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

Observations: Based on review, it appears that the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with Company policies, procedures and statutory requirements.

Recommendations: None.

Standard VI-4. Credits and deviations are consistently applied on a non-discriminatory basis.

General: M.G.L. c. 175, § 193R.

Property/Liability: M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175, § 111H; 211 CMR 131.00.

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges.

M.G.L. c. 175, § 193R permits affinity group discounts based upon experience for all policies.

Pursuant to M.G.L. c. 174A, § 5, fire rates shall be based on past and prospective loss experience, during a period of not less than the most recent five-year period for which such experience is available. In considering catastrophe hazards with respect to homeowners' insurance rates, the Commissioner shall consider catastrophe reinsurance and factors relating thereto. Fire rates shall also consider a reasonable margin for underwriting profit and contingencies. Finally, such rates shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 6 requires the filing of fire rates with the Commissioner, and M.G.L. c. 174A, § 9 requires insurers to use such filed rates, unless the insurer obtains approval from the Commissioner for a rate deviation.

M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage be subject to rules and regulations set forth by the Commissioner, and 211 CMR 131.00 prescribes requirements for filing lead liability coverage rates with the Division.

Controls Assessment: See Standard VI-1.

Controls Reliance: See Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information. RNA selected four homeowners' policies that renewed during the examination period to test rate classifications and premiums charged. RNA verified that credits and deviations for each policy were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company applies credits and deviations consistently on a non-discriminatory basis.

Recommendations: None.

Standard VI-5. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer commercial lines coverage.

Standard VI-6. Verification of use of the filed expense multipliers; the company should be using a combination of loss costs and expense multipliers filed with the Department.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

Standard VI-7. Verification of premium audit accuracy and the proper application of rating factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

Standard VI-8. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

Standard VI-9. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

Standard VI-10. Verification of company data provided in response to the NCCI call on deductibles.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

Standard VI-11. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.

Property/Liability: M.G.L. c. 175, § 4C, 95B and 193T.

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting.

Pursuant to M.G.L. c. 175, § 4C, no insurer shall take into consideration when deciding whether to provide, renew, or cancel homeowners' insurance the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or disability of the applicant or insured. M.G.L. c. 175, § 95B notes that no insurer shall cancel, refuse to issue or renew, or in any way make or permit any distinction or discrimination in the amount or payment of premiums or rates charged, in the length of coverage, or in any other of the terms and conditions of a residential property insurance policy based upon information that an applicant or policy owner, or any member of their family, has been a victim of domestic abuse. M.G.L. c. 175, § 193T prohibits discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on "sound actuarial principles or is related to actual experience."

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected 10 homeowners' policies that renewed during the examination period to test for evidence of unfair discrimination in underwriting.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, RNA noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendations: None.

Standard VI-12. All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable).

General: M.G.L. c. 175, § 2B and 192.

Property/Liability: M.G.L. c. 175, §§ 99, 99B, and 111H; 211 CMR 131.00.

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval.

Pursuant to M.G.L. c. 175, § 2B, policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and must be filed with the Division approval prior to use.

Pursuant to M.G.L. c. 175, § 99 homeowners' policy forms must conform to the standards for policy language set forth in that section and, according to M.G.L. c. 175, § 99B, condominium and tenant policies must be filed with the Division for approval prior to use. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage be subject to rules and regulations set forth by the Commissioner, and 211 CMR 131.00 requires that forms be filed with and approved by the Division for homeowners' lead liability coverage.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that all changes to homeowners' policy forms and endorsements be filed with and approved by the Division.
- Company policy requires that its producers use approved forms and endorsements as guidelines when providing quotes to customers.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA also selected 10 homeowners' policies renewed during the examination period to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company is using approved policy forms and endorsements in compliance with statutory requirements.

Recommendations: None.

Standard VI-13. The producers are properly licensed and appointed (if required) in the jurisdiction where the application was taken.

See Standards IV-1 and IV-2 in the Producer Licensing Section.

Standard VI-14. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

Objective: This Standard addresses whether underwriting, rating and classification decisions are based on adequate information developed at or near inception of the coverage, rather than near expiration or following a claim.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written Company policies and procedures are designed to reasonably assure consistency in application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- The Company has written underwriting guidelines for homeowners' policies based on information obtained at or near the inception of coverage.
- The Company files homeowners' rates with the Division to comply with statutory and regulatory requirements. The Company's rating process is designed to ensure that consistent and filed rates are used at or near the inception of coverage.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 10 homeowners' policies renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company is using underwriting, rating and classification guidelines that are based on adequate information developed at or near inception of coverage.

Recommendations: None.

Standard VI-15. File documentation adequately supports decisions made.

Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that the underwriting files support its underwriting and rating decisions. Most policy source information and related documentation is maintained and controlled by the Company, while some policy documentation may be maintained by the producer.
- Producers are responsible for completing applications for new business and obtaining information needed to properly underwrite and rate the policy. Properly completed applications include both the producer's and the applicant's signatures.
- Company underwriting personnel review renewal transactions for completeness and internal consistency, and periodically verify underwriting information through inspections, inquiries of producers, etc.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected 10 homeowners' policies renewed during the examination period to test whether the policy files adequately support decisions made.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that policy files adequately supported decisions made.

Recommendations: None.

Standard VI-16. Policies and endorsements are issued or renewed accurately, timely and completely.

Objective: This Standard addresses whether the Company issues policies and endorsements timely and accurately.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires the use of policy forms and endorsements which are approved by the Division. Producers are required to use such approved forms and endorsements as guidelines when providing quotes to customers.

- Any changes in policy coverage must be requested through the producer, who must timely process such requests.
- Company policy requires that all applications submitted by producers be reviewed by the underwriting department to ensure that they are complete and internally consistent.
- Company procedures include sending a renewal notice to the policyholder prior to the policy renewal effective date.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 10 homeowners' policies and five homeowners policy endorsements renewed or processed during the examination period, to test whether renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company generally issues renewal policies and endorsements timely, accurately and completely.

Recommendations: None.

Standard VI-17. Audits when required are conducted accurately and timely.

No work performed. This Standard is not covered in the scope of examination because the Company does not perform premium audits on personal lines coverage.

Standard VI-18. Company verifies that VIN number submitted with application is valid and that the correct symbol is utilized.

No work performed. This Standard is not covered in the scope of examination because the Company does not sell automobile insurance.

Standard VI-19. The company does not engage in collusive or anti-competitive underwriting practices.

M.G.L. c. 176D, §§ 3(4) and 3A.

Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices.

Pursuant to both M.G.L. c. 176D, § 3(4) and M.G.L. c. 176D, § 3A, it is an unfair method of competition and an unfair or deceptive act or practice in the business of insurance to enter into any agreement, or to commit any act of boycott, coercion or intimidation resulting in, or tending to result in, unreasonable restraint of, or monopoly in, the business of insurance.

Controls Assessment: Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected 10 homeowners' policies renewed during the examination period to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, RNA noted no instances where the Company's underwriting policies and practices appeared collusive or anti-competitive.

Recommendations: None.

Standard VI-20. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans.

No work performed. This Standard is not covered in the scope of examination because the Company does not use mass marketing plans or offer affinity group discounts.

Standard VI-21. All group personal lines property and casualty policies and programs meet minimum requirements.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer group products.

Standard VI-22. Rejections and declinations are not unfairly discriminatory.

Property/Liability: M.G.L. c. 175, §§ 4C, 95B and 193T.

Objective: This Standard addresses the fairness of application rejections and declinations.

Pursuant to M.G.L. c. 175, § 4C, no insurer shall take into consideration when deciding whether to provide, renew, or cancel homeowners' insurance the race, color, religious creed, national

origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or disability of the applicant or insured. M.G.L. c. 175, § 95B notes that no insurer shall cancel, refuse to issue or renew, or in any way make or permit any distinction or discrimination in the amount or payment of premiums or rates charged, in the length of coverage, or in any other of the terms and conditions of a residential property insurance policy, based upon information that an applicant or policy owner, or any member of their family, has been a victim of domestic abuse. M.G.L. c. 175, § 193T prohibits discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on “sound actuarial principles or is related to actual experience.”

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks for all lines of business..
- Company policy allows for cancellation of homeowners’ policies where the nature of the risk at inception has changed to an unacceptable risk during the coverage period.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected five company-initiated homeowners’ policy cancellations during the examination to ensure that the Company did not unfairly discriminate against policyholders.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, company-initiated cancellations do not appear to be unfairly discriminatory.

Recommendations: None.

Standard VI-23. Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines.

General: M.G.L. c. 175, § 187C.

Property/Liability: M.G.L. c. 175, §§ 99 and 193P.

Objective: This Standard addresses notice to policyholders for cancellation, non-renewal and declinations, including advance notice before expiration for cancellation and non-renewals.

Pursuant to M.G.L. c. 175, § 187C any Company shall effect cancellation of any policy by serving written notice thereof as provided by the policy and by paying the full return premium due.

Pursuant to M.G.L. c. 175, § 99, any Company may cancel property/liability coverage by giving the insured five days written notice of cancellation, and 20 days written notice of cancellation to the mortgagee to whom the policy is payable, except where the stated reason for cancellation is nonpayment of premium, where 10 days written notice of cancellation is required. M.G.L. c. 175, § 193P requires an insurer to give written notice to the insured of its intent not to renew a policy at least 45 days prior to the expiration of the policy, and must state the specific reasons for such decision.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that written cancellation notice be given in accordance with statutory requirements. The Company's practice is to give at least 20 days written notice to the policyholder prior to the effective date for homeowners' cancellations. The Company's general practice is to give notice to the producer, who is responsible for communicating the pending action to the policyholder.
- Company policy requires that homeowners' policyholders be given 45 days notice prior to non-renewal. The Company communicates the pending action and the reasons for it to policyholders in writing.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected five company-initiated homeowners' policy cancellations from the examination period to test compliance with notice requirements. There were no non-renewals during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, the Company appears to comply with notice requirements for company-initiated cancellations.

Recommendations: None.

Standard VI-24. Cancellation/Non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

General: M.G.L. c. 175, § 187C.

Property/Liability: M.G.L. c. 175, §§ 99 and 193P.

See Standard VI-23 for testing of this standard.

Standard VI-25. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

General: M.G.L. c. 175, §§ 187B and 187C.

Objective: This Standard addresses return of correctly calculated unearned premium in a timely manner when policies are cancelled.

Pursuant to M.G.L. c. 175, § 187B, a company is required to refund the proper amount of unearned premium upon any policy termination. Under M.G.L. c. 175, § 187C, a company canceling a policy of insurance must tender the full return premium due, without deductions, at the time the cancellation notice is served on the insured.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that premium refunds be calculated properly and paid timely.
- The Company calculates unearned premium for homeowners' policies using the pro-rata method.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected three insured-requested homeowners' cancellations from the examination period to test for timely payment of properly calculated premium refunds.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

Standard VI-26. Rescissions are not made for non-material misrepresentation.

General: M.G.L. c. 175, § 187D.

Objective: This Standard addresses whether decisions to rescind and to cancel coverage are made appropriately.

M.G.L. c. 175, § 187D also allows the cancellation of any policy for nonpayment of premium.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- As a general policy, the Company does not rescind policies as of their effective date, but instead cancels policies as of the date on which it determines rescission is appropriate.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and selected five company-initiated homeowners' policy cancellations from the examination period to test for evidence of improper rescission.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, none of the policies were rescinded. RNA further noted no improper rescission in conjunction with other underwriting tests.

Recommendations: None.

Standard VI-27. All policies are correctly coded.

Objective: This Standard addresses the accuracy of statistical coding.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Company policy is to timely report complete and accurate quarterly premium data to the Insurance Services Office ("ISO") in a format required by ISO.
- The Company has a process for correcting data coding errors and making changes as needed.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 10 homeowners' policies for the period January 1, 2005 through June 30, 2006 for testing of renewal data.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company records proper renewal data.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

VII. CLAIMS

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VII-1. The initial contact by the company with the claimant is within the required time frame.

M.G.L. c. 176D, § 3(9)(b).

Objective: The Standard addresses the timeliness of the Company's initial contact with the claimant.

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

Controls Assessment: The following key observations were noted in conjunction with the review of Standards VII-1 through VII-13:

- Written Company policies and procedures govern the claim handling process.
- A majority of claims are reported through one of the Company's agents. Written claim forms are received via fax, mail, or electronically. Company policy requires that a claim file be established and an adjuster assigned within 24 hours of its receipt of the notice of loss. Company policy also requires contact with the claimant within one business day.
- All loss claim files are maintained on a mainframe based automated claim management system.
- Company claims management can access the claim system to monitor open claims.
- Company claims management periodically reviews open claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Company claims management uses exception reports to measure operational effectiveness and claim processing time.
- The Company periodically surveys claimants to ask about their experience when filing a claim, and follows-up on specific comments after analyzing survey responses.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected five homeowners' claims processed during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: The claim transactions tested were processed according to the Company's policies and procedures, and the Company's initial contacts with claimants were timely. Based upon the results of testing, it appears that the Company's processes for making initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

M.G.L. c. 176D, § 3(9)(c).

Objective: The Standard addresses the timeliness of the Company's claims investigations.

Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected five homeowners' claims processed during the examination period to evaluate the Company's compliance with its claim handling policies and procedures, and to verify that investigations are conducted in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: The Company timely investigated the tested claims. Based upon the results of testing, it appears that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-3. Claims are resolved in a timely manner.

General: M.G.L. c. 176D, § 3(9)(f); M.G.L. c. 175, §§ 28 and 112.

Objective: The Standard addresses the timeliness of the Company's claim settlements.

General:

Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claims settlement practices include failing to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear. In addition, if an insurer makes a practice of unduly engaging in litigation, or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G.L. c. 175, § 28 authorizes the Commissioner to make a special report of findings to the General Court.

M.G.L. c. 175, § 112 states that liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected five homeowners' claims processed during the examination period to verify that claim resolutions were timely.

Transaction Testing Results:

Findings: None.

Observations: The resolution of tested claims was timely. Based upon the results of testing, it appears that the Company timely resolves claims in compliance with its policies and procedures, and with statutory requirements.

Recommendation: None.

Standard VII-4. The company responds to claim correspondence in a timely manner.

M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e).

Objective: The Standard addresses the timeliness of the Company's response to all claim correspondence.

Pursuant to M.G.L. c. 176D, § 3(9)(b) and 3(9)(e), respectively, unfair claims settlement practices include failure to promptly address communications for insurance claims, and failure to affirm or deny coverage within a reasonable time after the claimant has given proof of loss.

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected five homeowners' claims processed during the examination period to verify whether claim correspondence was answered timely.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that correspondence for the claims tested was answered timely. Based upon the results of testing, it appears that the Company timely responds to claim correspondence in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

<u>Standard VII-5. Claim files are adequately documented.</u>

Objective: The Standard addresses the adequacy of information maintained in the Company's claim records.

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected five homeowners' claims processed during the examination period, to verify whether claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the files for the tested claims were adequately documented. Based upon the results of testing, it appears that the Company's claim handling processes for documenting claim files are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

General: M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), M.G.L. c. 175, §§ 22I, 24D, 24E, 24F, 111F, 112, 112C and 193K.

Property/Liability: M.G.L. c. 175, §§ 96, 97, 97A, 100, 102; M.G.L. c. 139, § 3B.

Objective: The Standard addresses whether appropriate claim amounts have been paid to the appropriate claimant/payee.

General:

Pursuant to M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), respectively, unfair claim settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information; and unfair trade practices include failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear.

M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. M.G.L. c. 175, § 24E, requires the insurer to exchange information with the Commonwealth not less than 10 business days prior to making payment to a claimant who has received public assistance benefits. M.G.L. c. 175, § 24F requires communication with the Commonwealth regarding unpaid taxes. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, § 111F. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insured's liability coverage upon receiving a request in writing for such information.

M.G.L. c. 175, § 112 states that liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

M.G.L. c. 175, § 193K prohibits discrimination by companies in the reimbursement of proper expenses paid to certain professions and occupations, such as physicians or chiropractors.

Property/Liability Specific:

M.G.L. c. 175, § 96 limits the Company's liability to the actual cash value of the insured property when a building is totally destroyed by fire. In addition, if the insured has paid premiums on a coverage amount in excess of said actual cash value, the statute states the insured shall be reimbursed the proportionate excess of premiums paid with interest at six percent per year.

M.G.L. c. 175 § 97 requires the Company to pay fire losses to mortgagees of property upon satisfactory proof of rights and title in accordance with the insurance policy. Further, when a claim for loss or damage to property exceeds five thousand dollars, M.G.L. c. 175 § 97A requires

the Company to ensure that the claimant submits to the Company a certificate of municipal liens from the collector of taxes in the city or town wherein such property is located. The Company shall pay to the city or town any amounts shown on the certificate of municipal liens as outstanding on the date of loss. The provisions of M.G.L. c. 175 § 97A do not apply to certain owner-occupied dwellings.

M.G.L. c. 139, § 3B prohibits the Company from paying claims covering loss or damage to a building or other structure (defined as “dangerous” pursuant to M.G.L. c. 143, § 6) in excess of one thousand dollars without having given 10 days written notice to the building commissioner or inspector of buildings appointed pursuant to the state building code, to the fire department, and to the board of health, in the city or town where the property located.

M.G.L. c. 175, § 100 sets forth standards for selecting a referee if the parties to a claim fail to agree the amount of loss. In addition, M.G.L. c. 175 § 102 states the failure of the insured under a fire policy to render a sworn statement shall not preclude recovery if the insured renders a sworn statement after receiving a written request for such sworn statement from the Company. M.G.L. c. 175, § 102 further defines requirements related to such a request for a sworn statement made by the Company.

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected five homeowners’ claims processed during the examination period, to verify whether claims were handled in accordance with applicable policy provisions, and statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the claims tested were reported according to the Company’s policies and procedures, and that the claim files were handled in accordance with policy provisions. RNA ascertained whether or not the claim tested had a written request for disclosure of the insured’s liability policy limits. When required, the Company responded to the request within 30 days, pursuant to M.G.L. c. 175, § 112C. RNA also ascertained whether or not the paid claims were subject to the intercept procedures to comply with requirements in M.G.L. c. 175, §§ 24D, 24E, and 24F. Based upon the results of testing, it appears that the Company’s processes for handling claims in accordance with policy provisions, and statutory and regulatory requirements, are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-7. The company uses the reservation of rights and excess of loss letters, when appropriate.

Objective: The Standard addresses the Company's use of reservation of rights letters, and its procedures for notifying insureds when the amount of loss will exceed policy limits.

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for five homeowners' claims processed during the examination period, and noted whether reservations of rights or excess loss letters were warranted.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the claims tested were reported according to the Company's policies and procedures, and ascertained whether or not the claim used the reservation of rights or excess of loss letters. RNA noted no instances where the Company used a reservation of rights letter or excess loss letter.

Recommendations: None.

Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

Objective: The Standard addresses the Company's timely refund of deductibles from subrogation proceeds.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for five selected homeowners' claims processed during the examination period, and noted whether subrogation recoveries were timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the claims tested were reported according to the Company's policies and procedures, and ascertained whether or not the claim had potential subrogation recoveries. RNA noted no instances where subrogation recoveries were involved in the claims tested.

Recommendations: None.

Standard VII-9. Company claim forms are appropriate for the type of product.

Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for five selected homeowners' claims processed during the examination period, and noted whether claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that claim forms for the tested claims were appropriate, and were used in accordance with the Company's policies and procedures.

Recommendations: None.

Standard VII-10. Claim files are reserved in accordance with the company's established procedures.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim records related to its reserving practices.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for five selected homeowners' claims processed during the examination period, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that reserves for the claims tested were evaluated, established and adjusted according to the Company's policies and procedures. Based upon the results of testing, it appears that the Company's processes for evaluating, establishing and adjusting claim reserves are timely functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-11. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).

Objective: The Standard addresses the Company's decision-making and documentation of denied and closed-without-payment claims.

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim an unfair claim settlement practice.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the claim correspondence and investigative reports for one selected significant homeowners' claim that was denied or closed without payment during the examination period, and noted whether the Company handled the claim timely and properly before closing it.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the file for the denied or closed without payment claim tested appeared complete, including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

Standard VII-12. Cancelled benefit checks and drafts reflect appropriate claim handling practices.

Objective: The Standard addresses the Company's procedures for issuing claim checks as they relate to appropriate claim handling practices.

Controls Assessment: The Company generally does not require that claimants sign a release before it issues a claim payment, except for certain liability claims.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for five selected homeowners' claims processed during the examination period, and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that each claim selected for testing was reported according to the Company's policies and procedures, and that claim payment documentation was adequate. RNA noted no instances where claim payment practices appeared inappropriate. Based upon the results of testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-13. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), M.G.L. c. 175 § 28.

Objective: The Standard addresses whether the Company's claim handling practices force claimants to institute litigation for the claim payment, or to accept a settlement that is substantially less than what the policy contract provides.

Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims settlement practices include (a) compelling insureds to initiate litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds, and (b) attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was entitled by reference to written or printed advertising material accompanying or made part of an application. Moreover, if an insurer makes a practice of unduly engaging in litigation, or of unreasonably and unfairly delaying the adjustment or

payment of legally valid claims, M.G. L. c. 175, § 28 authorizes the Commissioner to make a special report of findings to the General Court.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for five selected homeowners' claims processed during the examination period, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: Documentation for the claims selected that involved litigation appeared complete, including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Based upon the results of testing, it appears that the Company's claim handling processes do not unreasonably deny claims or compel claimants to initiate litigation.

Recommendations: None.

Standard VII-14. Loss statistical coding is complete and accurate.

M.G.L. c. 175A, § 15(a); 211 CMR 15.00

Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus.

Pursuant to M.G.L. c. 175A, § 15(a), insurers must record and report their loss and countrywide expense experience in accordance with the statistical plan promulgated by the Commissioner, and in accordance with the rating system on file with the Commissioner. The Commissioner may designate a rating agency or agencies to assist her in the compilation of such data. In accordance with 211 CMR 15.00, the Commissioner established and fixed various statistical plans to be used in relation to homeowners' insurance and related coverages, in accordance with M.G.L. c. 175A, § 15(a).

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to timely report complete and accurate loss data to ISO.
- The Company reports homeowners' property/liability loss data to ISO in a format required by ISO.
- The Company reports detailed claim data quarterly to ISO, including loss experience by line of business, type of loss, dollar amounts, claim counts, accident dates, territory, etc.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have policies and procedures for timely and accurately reporting loss statistical data to ISO.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims as set forth in the *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. We have made a recommendation to address a concern in the complaint handling area.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Rudmose & Noller Advisors, LLC, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of Insurance of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination (“comprehensive examination”) of the Company.

The undersigned’s participation in this comprehensive examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners (“NAIC”) and the *NAIC Market Conduct Examiners’ Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report. In addition to the undersigned, Dorothy K. Raymond of the Division’s Market Conduct Section participated in this examination and in the preparation of the report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the course of the examination is hereby acknowledged.

Matthew C. Regan, III
Director of Market Conduct &
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts